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TRANSNATIONAL CORPORATIONS IN NON-FOOD AGRICULTURAL INDUSTRIES IN AFRICA*

* This Report was prepared for the Economic Commission for Africa by a consultant. The views expressed herein are those of the author and those of the original studies which were integrated into this Report, and do not necessarily represent the views of the United Nations.

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CHAPTER I

INTRODUCTION

1. This report is an integration of five case studies on the role of transnational corporations (TNCs) in the tobacco, cotton and tropical hardwood industries of selected developing African countries 1/, namely the Ivory Coast, Kenya, Sudan, Tanzania and Zimbabwe. These studies and the present report, prepared for the Joint ECA/CTNC Unit on TNCs of the International Trade and Finance Divison of the ECA, constitute part of the Interregional Project on TNCs in the Primary Export Commodities sponsored jointly by the ECA, ECLA and ESCAP 2/. The purpose of the project is to study the involvement of TNCs in the industries of export-oriented primary commodities of the developing countries, the distribution of gains between these corporations and host countries and the strategies and policies which have been or may be pursued by governments of the developing countries to alter the distribution of gains in their own favour.

2. The Introduction describes the importance of tobacco, tropical hardwood and cottor to the five producing countries and the world-wide significance of developing Africa as a producer of these primary commodities. It then offers some general remarks about the nature and extent of TNC involvement in the production, processing and marketing of the three commodities, using a historical framework and following a comparative approach. Chapter II describes in detail the evolution of roles played by TNCs in each case, pointing out similarities and differences between commodities and countries under study. The next chapter draws conclusions on the direction of changes in the relative bargaining positions of TNCs and their host countries and the resultant alterations in the distribution of gains between them. This is followed by examination of the factors that enter into the bargaining process and determine its outcome; an attempt is made to calculate the shares of gains going to (government, producers, local intermediaries, etc.) on the other. Finally, the study suggests in a final chapter ways and means by which the host countries can improve their bargaining position and increase their share of gains at the expense of TNCs operating within their territories.

1/ The studies referred are: Transnational Corporations in the Tobacco Industry in Kenya (E/ECA/UNCTC/33); Transnational Corporations in the Tobacco Industry of Zimbabwe (E/ECA/UNCTC/19 - 1982); Transnational Corporations in the Cotton Industry of Tanzania (E/ECA/ CTNC/3-1982); Transnational Corporations in Cotton Industry in Sudan (E/ECA/CTNC/2 -1982); Transnational Corporations in the Production of Tropical Hardwood in the Ivory Coast (E/ECA/CTNC/11-1982). Unless otherwise noted, all sources and figures in the study refer to these reports and to statistical tables appended hereto.

2/ For an understanding of the common approaches followed by the authors of the case studies see: Joint ECA/CTNC Unit on TNCs, Transnational Corporations in Export-Oriented Primary Commodities: A General Conceptual Framework for Case Studies (Working Paper No. 1 - 1979)

3. Tobacco, cotton and hardwood are Africa's chief non-food export items. Tobacco accounted for 42.2 per cent of Zimbabwe's exports, in 1981; timber represented 48 per cent of total exports from the Ivory Coast, and cotton secured 48 per cent of Sudanese and 15 per cent of Tanzanian export earnings. Non-food items as a group, however, only represent 9 per cent of exports from sub-Saharan Africa, and within this category, the three items considered here account for only 6.2 per cent of that total. Despite this, they rank as fifth (hardwood), sixth (cotton) and ninth (tobacco) among Africa's top export items. As a supplier, Africa, occupies a modest position: its share of world exports is 10 per cent in the case of tobacco, 11 per cent for cotton and 9 per cent for hardwood.

4. In all five countries the involvement of transnational corporations in the production, marketing or processing of the primary commodities in question began in the early stages of development during the colonial era. Involvement did not begin at the production stage in all cases. In Zimbabwe, Kenya, Sudan, Tanzania and the Ivory Coast, TNCs initially appeared at tobacco and cotton growers and as loggers; they first entered the tobacco industry in Kenya through cigarette manufacturing, from which they integrated downstream into tobacco cultivation. TNCs associated with production of these primary commodities did not engage actively in the process of primary production either, except in Sudan and the Ivory Coast. In the former, an American TNC established the Sudan Experimental Plantations Syndicate in 1904 to grow cotton on 11 000 acres; this company later passed into British hands and was renamed the Sudan Plantations Syndicate (SPS). In the Ivory Coast, European TNCs like British Sawyers in 1880 and Kong Company in 1895 started large-scale logging. In Kenya, Zimbabwe and Tanzania, TNCs opted to encourage local growers to produce the crops which they then bought, exported and processed.

5. In all five countries the process of Africanization of industries began after the Second World War starting, first at the production stage and progressively moving to the exportation and finally the processing stages. The Sudan nationalized SPS in 1950. The Ivory Coast began ivorization of the logging industry in 1960, which led to control by Ivory Coast nationals of 90 per cent of the country's 710 logging firms. In Zimbabwe, where production was dominated by white settlers rather than TNCs, the process of Africanization encouraged African nationals to engage in large-scale cultivation.

6. Until the 1950s TNCs were content to operate in developing African countries as exporters of primary commodities to the industrialized world where manufacturing firms, most of them TNCs, processed African produce. However, from the mid-1950s a number of American and European TNCs began to establish factories in Africa for local processing of the continent's primary products: British-American Tobacco (BAT) established processing plants in Nairobi in 1954 and in Dar-es-Salaam in 1961. In Khartoum the Sudanese-American Textile Factory was incorporated in 1958. In Tanzania foreign TNCs joined hands with the state in the early 1960s in setting up two textile mills - Mwatex partly French and Kiltex, partly owned by IPS. Rothman Pall Mall

established a cigarette factory in Zimbabwe, then Southern Rhodesia, in 1961. In the Ivory Coast, primary and secondary, processing plants were set up during the 1960s by TNCs so as to produce sawnwood, plywood, veneers and joinery to replace the export of wood in a rough form.

7. The shift of TNCs into local processing of African primary products occurred at a time when widespread Africanization measures were curtailing their role as exporters. In most countries, governments used licensing and fiscal controls to restrict the operations of foreign export firms in favour of national ones. In the Sudan, TNCs engaged in cotton export were nationalized in 1970. Full or partial nationalization, in some cases even confiscation, were the favourite measures in many of the African countries that sought to curb the power of TNCs at the processing stage. For instance, during the 1970s BAT's branches were confiscated in Uganda; nationalized in Tanzania; and forced to surrender to the state or to African nationals between 10 and 55 per cent equity in Ghana, Zaire, Nigeria, Sierra Leone and Kenya. In the Ivory Coast, TNCs engaged in primary and secondary processing of wood, which numbered 61, were required by law to allocate a "substantial share" of their capital to Ivory Coast nationals or to the state which would then recycle it to its subjects. In Tanzania, the state is a major shareholder in the two cotton processing mills set up by TNCs and owns 100 per cent of the shares of a third. In the Sudan, the Military Economic Corporation, a para-statal body, has just acquired 25 per cent of the major textile plants in the country in which foreign capital was dominant.

8. It is rare to find the same TNC operating in more than one stage of product handling in the economic areas surveyed in this report. TNCs in the tobacco industry constitute one notable exception, and yet, even they seldom engage in primary production. Both BAT and Rothmans are involved in tobacco trade and processing but only operate demonstration farms for research and training purposes. Tabex and Carrington and Michaux are even less vertically integrated: they act primarily as tobacco buying firms. Integration of marketing and processing activities in the tobacco industry is mostly effected through affiliation rather than within the same business unit. This is particularly characteristic of the African wood industry: in the Ivory Coast the wood export trade is dominated by subsidiaries of such French, German and British TNCs as CADEn, LALANNE, JACOB, Danzer-Allemand and SOCA. Hardly any of these firms engage in wood processing outside the Ivory Coast. In fact, the government of the Ivory Coast felt that the gap between export and processing firms was so wide that it sought to establish direct contacts with users of its wood in industrialized countries. The same is true of the cotton industry: the firms operating in the cotton export business and those engaging in spinning and weaving are almost totally separate.

9. Studies reveal that conflicts of interest exist not only between TNCs and host countries, but also among TNCs themselves. In the tobacco business, rivalries amongst TNCs were mostly resolved by mergers: one such merger occurred in 1902 when the union

between American Tobacco Company and Imperial Tobacco Company produced BAT, the British-American Tobacco Company. This ended the rivalry between the two firms, which agreed to share the world market by allowing one another to trade in each other's brands in own spheres of influence. Another merger occurred in 1953 when Rembrandt of South Africa bought Rothmans of Pall Mall, a British firm. The South-African controlled Rembrandt-Rothmans Group has grown to become one of the largest and most powerful tobacco internationals. Kenya witnessed a struggle among tobacco manufacturers threatened BAT's monopoly of the Kenyan market and forced the powerful TNC to buy them out. In the Sudan the cotton export firms acted in unison inside countries; even when they were actively competing abroad: the largest five firms maintained their collective purchases at a stable level of 60 per cent in the face of vast fluctuations in the volume of cotton exports - a clear indication of collusion among them. It is also quite evident that the textile TNCs operating in the developing countries were a direct threat to those still operating from the industrialized countries. It is therefore clear that TNCs are rarely bound together by common interests or common objectives. Realization of this fact can have an immense impact on the policies pursued by host countries seeking to curb the powers of the TNCs.

10. It is apparent that the involvement of the TNCs in the tobacco, cotton and hardwood industries of the five countries included in this survey differ in both mode and extent. On the whole, however, TNCs have always shied away from primary production and lost much ground in the sphere of export trade, but remain well entrenched in the field of produce processing. Nevertheless, since the 1950s the developing countries of Africa have gradually but effectively been edging TNCs out of successive stages of industry. In this endeavour they have been unwillingly helped by those TNCs whose interests pitched them on the side of the governments of developing countries in their struggle against other TNCs.

11. Notwithstanding the similarities outlined above in patterns of TNC involvement in the production, exportation and processing of tobacco, cotton and hardwood in the five countries under study, there are many interesting differences in TNC-host country relations which deserve to be examined in some detail.

CHAPTER II

TRANSNATIONAL CORPORATIONS IN THE COTTON, HARDWOOD AND TOBACCO INDUSTRIES OF KENYA, THE IVORY COAST, SUDAN, TANZANIA AND ZIMBABWE: A COMPARATIVE SURVEY

12. This Chapter examines each commodity individually, beginning with the two tobacco-producing countries, Kenya and Zimbabwe and following, with cotton in Tanzania and the Sudan and hard wood in the Ivory Coast. In each case, the bargaining positions of host countries vis-a-vis TNCs and the resulting impact on distribution of gains between the two are analyzed. Comparisons between the different cases reveal similarities or differences in the positions of the five host countries and potential for joint action amongst them.

A. Tobacco in Kenya and Zimbabwe

1. Kenya

13. The British-American Tobacco Company (BAT) has dominated the tobacco industry of Kenya since the beginning of this century. It started marketing cigarettes in Kenya in 1902 when it was granted a royal charter that gave it a monopoly over tobacco sales throughout the British colonies. Until the 1950s, Kenya remained a tobacco consuming country, neither growing nor processing the commodity: when BAT began cultivation and processing of tobacco in East Africa in 1930, it chose Uganda as a base for its operations.

14. BAT was forced to manufacture cigarettes in Kenya in the early 1950s when rival firms which had set up factories there, began to threaten its monopoly over the Kenyan market. It bought out its rivals proceeded to establish its own factory in Nairobi in 1954. No attempt was made, however, to promote the cultivation of tobacco in Kenya although BAT's own experiment in growing it in 1930 in Sagana and in Kitui produced positive results. BAT continued to feed its Kenyan plants with tobacco grown in Uganda, Malawi and Zimbabwe until 1974, when it began to grow tobacco at Migori in the Nyanza Province and Malakisi in the Western Province. Events in East Africa, in particular confiscation of BAT assets in Uganda in 1970 and nationalization of its subsidiary in Tanzania in 1974 forced the company to do this. In less than ten years the company's Kenyan subsidiary, BAT Kenya Ltd., which was created in 1964 after dissolution of the East African Tobacco Company, became self-sufficient in tobacco. Its output of 5 300 tons meets all requirements for production of 4.8 billion cigarettes for the Kenyan market.

15. The narrative above shows that BAT's involvement in the Kenyan tobacco industry was unusual in that it progressed from importation to processing to cultivation. In most cases, TNC activities in primary producing countries followed the reverse sequence. It is also significant to note that BAT is resisting pressure from its own tobacco growing unit to export Kenyan tobacco to the European market.

16. BAT made many positive contributions to the Kenyan economy. The country is self-sufficient in tobacco products.

The company has 8 800 tobacco growers on its books; it employs 800 workers in its tobacco factories; 55 300 traders market its cigarettes, and its labour force is the highest paid and best cared for in Kenya, with a monthly pay averaging Shs. 2000/ - compared with a national average of Shs. 750/. BAT employees could have earned even more, had it not been for restraints imposed by the Government under its wage and income policy. The company's labour turnover is one of the lowest in the country. In addition, BAT plays a leading role in afforestation, energy conservation and rural development programmes. It has been active in promoting sports and has helped to produce some of Kenya's foremost athletes. Most important, it has done much to involve Kenyans in its management. Not only did it voluntarily sell 40 per cent of its shares to the Kenyan government, but also no more than 11 (7 Europeans and 4 Asiatics) of the 1759 employees in its Nairobi factory in 1981 were non-Kenyans.

17. Despite this, BAT's record in Kenya is not unblemished. First, its resistance to demands for turning Kenya into a tobacco exporter seems groundless, particularly since Uganda and Tanzania, which produce comparable varieties, are notably substantial exporters to the EEC. Secondly, its plants tend to be capital-intensive, thus it employs a small labour force in the processing factories (800 persons only). Finally, the company's accounting system makes it hard to assess its profitability since it omits any mention of turnover in Kenya. There are indications, however, that profits are excessive even though it only owns 60 per cent of BAT Kenya Ltd. and is the most generous employer and the largest excise taxpayer in the country. There seems to be room for a larger shareholding by the government (Kenya's 40 per cent share compares unfavourably with Liberia's 49 per cent and Zimbabwe's 51 per cent share-holding) and for further taxation.

2. Zimbabwe

18. As in Kenya, BAT plays an important role in Zimbabwe's tobacco industry, though with some basic differences. First, unlike Kenya, Zimbabwe, then Southern Rhodesia, began to grow tobacco in the 1890s and from the 1920s held an international position as a major tobacco exporter. On the eve of UDI (Unilateral Declaration of Independence) in 1965 it was second only to the United States, boasting exports of 140 000 tons of flue-cured tobacco. BAT has long realized that Zimbabwe was a major tobacco grower and has worked to keep her that way, just as it tried to limit Kenya to a role of tobacco consuming country for as long as possible. Another important difference between the Kenyan and the Zimbabwean tobacco industry is that BAT's control of the latter is not as absolute as it is in the former. Other large TNCs like Rothmans, TA Holdings, Tabex and Carrington and Michaux are strong rivals for BAT in Zimbabwe. In fact, TA Holdings developed from a tobacco exporting firm into the largest locally-based TNC in Zimbabwe by diversifying into manufacturing and other activities. Despite this, BAT and Rothmans control large share of the tobacco

export trade, which is the mainstay of the Zimbabwean economy. It is also worth mentioning that in Zimbabwe, the government and various trade associations of commercial growers, buyers, manufacturers, packers and sellers have a more important role in the tobacco business than do their Kenyan counterparts.

19. Prior to independence in 1980, the role assigned to Zimbabwe by the tobacco TNCs was that of a large tobacco farm whose purpose was to supply factories in South Africa, where they all had vast investments. Zimbabwe's potential for being a large tobacco exporter was discovered by the British South African Company which virtually ruled the colony during the early decades of this century. African peasants were planting the leaf for their own use and for sale to the mineral prospectors when the company decided to push them out of the best lands to make room for white commercial farmers. This was achieved through a policy of discrimination against their crops coupled with harsh taxes. By the time BAT entered the scene in the 1920s vast areas had passed into the hands of the white settlers. BAT provided training and inputs to enable them to produce tobacco on a large scale for exportation. By 1964-5 there were some 3000 white farmers, each employing tens of African labourers.

20. The tobacco TNCs continued to encourage tobacco cultivation without themselves engaging in production until Zimbabwe's output reached 146 000 tons in 1965. The main TNC task was to buy tobacco and export it to their own factories abroad: 40 per cent of the crop went to the United Kingdom. About 90 per cent of the exports were shipped through the Mozambique ports of Beira and Maputo.

21. Until 1965 the commercial farmers produced tobacco without limitations on volume and sold it in free and open auctions. All this ended in 1965 with the UDI and the imposition of sanctions on the Smith regime. Because of its dominant role in the economy, the tobacco industry was a prime target for sanctions. By the end of the decade, the industry's turnover had fallen by 66 per cent, and the growers' prices had fallen(by 25 per cent) to below cost. Growers had to lay off some 16 000 farm labourers.

22. Prior to 1980, BAT and other tobacco TNCs came to the rescue of the ostracised regime and its beleaguered industry. They had the full collaboration of the government and the tobacco farmers' association. They evaded sanctions by operating through regional headquarters in South Africa, thus providing an illegal conduit for expanding Rhodesia's exports of tobacco. Their agents bought the crop secretly. The TNCs benefitted from the situation: they were reported to have paid Rhodesia's farmers about two-thirds of the world market prices, whereas they paid farmers elsewhere about three-fourths. The Rhodesian farmers found compensation from government subsidies which totalled $160 million over the years. They also tried to make up for losses by depressing the wages of black labour.

23. From 1964/65 to 1970/71, the number of tobacco farmers dropped from 3000 to about 1000, and output also declined from 147 000 tons to about one third of that. Despite the liberation war during the 1970s, the Rhodesian tobacco industry was able to recover. The number of farmers rose to 1260 and production reached 112 thousand tons on the eve of independence in 1980. Much of the increase in production during the 1970s was the result of improved productivity, itself the product of improved use of chemicals and the withdrawal of the less efficient farmers from the trade.

24. Independence brought about an end to sanctions and a sharp rise in Zimbabwe's tobacco production and exports. In fact, the first harvest after independence represented a record crop. Changes in the marketing system made control of the industry more liberal than before independence. There was a return to open free auctions, and controls on production were lifted. The production boom after independence caused supply to exceed demand, and the Zimbabwe Tobacco Association (ZTA) was forced to ask the state for assistance. A stabilization scheme was introduced: the state guaranteed loans from the banks to the growers totalling $275 million so as to finance buying and stockpiling of surplus quantities. The Tobacco Marketing Board was empowered to impose quotas limiting production in 1981 to 70 000 tons. In 1982, however, the ZTA and the Board initiated a change in the marketing system: a sudden rush for Zimbabwean tobacco after the failure of the Chinese crop coincided with a cut-back in production so as to meet quota limitations. The new systems therefore did away with the quotas and introduced a price stabilization scheme financed by a levy paid to ZTA by its members.

25. The TNCs, which had already incorporated locally under Zimbabwe's laws so as to avoid sanctions, continue to function freely under Black rule. They buy tobacco from the predominantly-white growers through their own affiliates or independent export TNCs domiciled in Harare. The bulk of Zimbabwe's tobacco is exported through South Africa, since the Mozambique route was closed to Rhodesian, now Zimbabwean exporters in 1975. Attempts by the current government to reroute exports through the shorter and cheaper rail line via Mozambique have failed so far. Tobacco is often retained inside Zimbabwe after it is sold because some TNCs find it convenient to store the packed product in Harare before consigning it to their factories in South Africa or elsewhere. Only about 3 per cent of the crop is processed locally in factories owned by BAT and Rothmans: a third, owned by Carlton, was bought by BAT. The market is thus more or less evenly divided between BAT and Rothmans.

26. A small percentage of Zimbabwe's tobacco is burley tobacco - 2 to 3 thousand tons only. Most of its crop is of the flue-cured type. However, there is growing demand for burley tobacco for use in blended cigarettes, and one kilogramme of burley tobacco in Zimbabwe formed a union that sells the entire crop to a consortium of buyers comprising two companies, Tabex and Carrington and Michaux. The Tobacco Marketing Board arbitrates between the union and the consortium when disputes arise.

27. The domination of the tobacco industry of Zimbabwe by TNCs is quite clear. Production is predominantly carried out by white growers under the guidance of the buying TNCs, which process small amounts of tobacco locally and ship the bulk to South Africa for processing or reshipment to other parts of the world.

B. Raw Cotton in Sudan and Tanzania

1. Sudan

28. Sudan's dependence on cotton is tremendous. Half a million hectares, about one tenth of the cropped areas, are under cotton. Cotton growers number about ¼ a million: 3 times as many people engage in harvesting, processing and handling the crop. Cotton accounts for 48 per cent of the country's exports and forms the basis for Sudan's largest manufacturing industries. Sudan ranks as the eleventh largest producer of cotton in the world and the sixth most important exporter. The country's shares of world production and exports of raw cotton are one per cent and 4 per cent respectively.

29. At various times, TNCs controlled every section of the Sudanese cotton industry. Their domination of production ended in 1950 and of the export trade, in 1970. Their hegemony in the manufacturing section is still unchallenged.

30. Sudan grew cotton from ancient times, but the first attempt to cultivate the commodity on a large scale for exportation only occurred under the Turkish Administration in the 1870s. In 1904 an American millionnaire established an experimental pump scheme for growing cotton as part of a plan to resettle American blacks in Africa. The scheme failed and was taken over by British nationals who had the support of the British Cotton Growers' Association; the latter was looking for a new source of extra-long staple (ELS) cotton. The re-organized scheme succeeded under the management of the new firm, the Sudan Plantations Syndicate. SPS later became involved in the creation of the 2-million acre Gezira Scheme, launched in 1925 as a tripartite partnership between SPS, the Sudan Government and farmers: the three groups shared the cotton proceeds, each getting 20 per cent, 40 per cent, and 40 per cent, respectively. SPS was entrusted with management of the scheme and ginning and marketing of the fibre. Its concession ran until 1950, after which it was nationalized and replaced by the Sudan Gezira Board (SGB), a para-statal body. At the time, cotton was also grown in state farms (Gash, Tokar, Abdel Majid, White Nile Schemes) as well as in a few privately-owned pump scheme. The output of these public and private initiatives, however, only represented a fraction of Gezira's.

31. Before and after the Second World War, Sudan's cotton crop was sold at public auctions, first held at Port Sudan and later in Khartoum. During the War and until 1952, marketing was changed to bulk-sale contracts, first between the Sudan Government and the British Cotton Control Board, and later between the SGB and the Raw Cotton Commission of Britain. From 1953 on, cotton was again auctioned by the SGB

on behalf of all publicly-owned schemes. Buyers were locally registered export firms or branches of foreign intermediaries such as Ralli Brothers (British), Société de Cotton (French), Reinhart (Swiss) and Faraghalli (Egyptian). Most of these were merely commission agents for textile firms in industrialized countries. There was evidence that the firms formed a cartel to rig the auctions: this was facilitated by the fact that the largest five among the 38 firms regularly bought 60 per cent of Sudan's fluctuating output. In addition, the companies were known to engage at times in speculative buying with a destabilizing effect on the market. They were also accused of influencing state cotton classifiers to their own advantage. For these and many other malpractices, all export firms, 18 at the time were nationalized in 1970 and replaced by the Cotton Marketing Corporation and its four subsidiary companies.

32. Primary processing of cotton in Sudan in the form of ginning, hand-spinning and -weaving and seed crushing dates back to the early part of the Turkish Administration (1821-1885). The first modern textile mill was established in 1946 as part of a complex of factories for the manufacture of grey cloth, oil, soap and sugar in the southern town of Mazara. A large and complex factory, built at a cost of LS.8.17 million, started production in 1962 under the ownership of the Sudanese-American Textile Factory Ltd., an American-based company. The factory was capable of producing 45 million yards of material. It had a paid-up capital of LS.900 000 and its factory was largely financed by machinery and cotton suppliers' credit and loans from Sudanese banks. The Sudanese - American Textile Factory was unable to meet its debts and was bought by another TNC, the Kuwaiti-based firm Gulf International, for LS.10 million. This same TNC bought a number of faltering firms in the Sudan including factories for manufacturing glass, matches and pharmaceuticals. It also has an air-taxi service and a mining company. Its subsidiaries abroad own a textile mill in Lebanon, a dairy farm in Holland, match factories in Nigeria and Zaire, woodworks in Canada as well as fish canning plants in Somalia and Kuwait. One of the firm's large shareholders is Sudanese. Gulf had shares in London, the controversial London-based TNC with wide interests in Africa. Together they helped to launch Sudan's Kenana Sugar Company, the largest sugar factory in the world. When the Company began to face financial difficulties, Gulf helped to ease London out of Kenana's management but retained its 29 per cent shareholding in the British TNC. Gulf enlarged its textile factory adding 36 million yards of finished fabrics to its production capacity. Its employees rose from 4 300 to 8 500. Unfortunately the factory now produces less fabric than before because it is operating at about 30 per cent of capacity. Power cuts, a high rate of labour turnover, poor industrial relations, spurts of trade liberalization that opened the floodgates for imported fabrics and rising costs of imported inputs due to the falling value of the Sudanese pound have all combined to make the Company lose LS.27 million in the last five years. Finally, with debts to the state-owned banks and the Cotton Marketing Corporation running into tens of millions of pounds, the state secured 25 per cent of its shares and pledged more money for a rescue operation, which is still being organized.

33. The factory owned by Gulf International is only one of 19 textile factories in Sudan, seven of which are state-owned. Total investment in the 19 factories is around LS.400 million, and their labour force is about 32 000. Another totally foreign-owned textile mill is Jumeira; this Dubai-owned mill, which commenced production in 1979, produces yarn for export. Other private mills are owned by Sudanese with some involvement by one foreign firm or another: Japanese firm, Gosho-Kematsu, has a shareholding in Khartoum Spinning and Weaving Company which it supplied with machinery; Tootal, a leading British firm, manages Jumeira, whose yarn is marketed in Europe by a Swiss firm, Dombro; Bibojee, a Pakistani textile firm, manages the El Bagier factory; the Maurer Textile Company, which is Swiss, acts as consultant for the Gezira and Managil Textile Company (GEMATEX) in which it has a 9.5 per cent shareholding.

34. In the early 1970s, the Sudan government formulated a 15-year plan for expanding over the period 1972-86 the country's spinning capacity from 100 000 to one million spindles, and the looms from 3 700 to 12 000. This was to be achieved in four different phases, each with a unique objective. Phase I was intended to make the country self-sufficient by 1976 in finished garments. Phase II, which was to end in 1978, aimed at producing 70 000 tons of coarse, medium and fine yarn for exports. Phase III was to achieve by 1982 the weaving of 25 per cent of the yarn spun during Pase II into 126 million meters of grey fabrics for exportation. Pase IV was to fulfill by 1986 the objective of exporting dyed and printed fabrics. The plan, however, could not be implemented. At the end of the 1970s, Sudan was still importing an average of 20 000 tons of yarn and fabrics a year. More recently, however, some of the Sudanese textile firms have begun to export yarn to a number of industrialized countries.

35. The Sudan is not only importing cotton yarn and fabrics, but also synthetic ones. Man-made fibres (MMFs) and fabrics are clearly a threat not only to the Sudanese cotton-based textile industry, but also to the Sudanese cotton grower. Promoted by giant TNCs like Du Pont, Hoechst, Bayer, ICI and Monsanto, celulosic or rayon and non-celulosic MMFs like nylon, polyster, acrylics and terrylene have captured about 47 per cent of the world fibre market. Countries like the Sudan which produced ELS were particularly hit by the rise of MMFs, because they were usually blended with shorter cottons so as to replace fabrics made purely of ELS growths.

36. Likewise, as a potentially large exporter of cotton yarn and fabrics, the Sudan can expect stiff opposition from the cotton textile industries of advanced countries. During the 1960s and 1970s these industries lost much ground to the rising industries of the developing countries. For instance, between 1960 and 1976, spinning capacity in the EEC dropped by 47 per cent and weaving capacity by 54 per cent while the capacity of spinning in Asia rose by 50 per cent and that of

weaving by 54 per cent. Africa's weaving capacity in the same period rose by 152 per cent. The industrialized countries responded by imposing barriers on exports from developing countries, which had effectively used their comparative advantages, as low-wage countries and late-comers using the most up-to-date equipment, to capture a growing share of the market. The main instrument for controlling competition from poor countries is the Multi-Fibre Arrangement (MFA) which exploits the trade-disruption clause in the GATT to discriminate against textile imports from the Third World. In addition, large textile firms have either formed cartels or have merged to capture markets abroad. Cortauld of Britain took over a number of rivals in the Continent. Tootal, also British, merged with West Point Pepperel of the USA. In France, several mergers produced three dominant groups - Agache-Willot, Dolfus-Mieg, and Lainiére de Roubaix. Rationalization of the textile industry in the USA increased the share of the top 15 firms from 15 to 40 per cent. The modernized American industry led the highly-protected European industries in a new export drive, particularly to the fast-growing markets of developing countries. US based TNCs went as far as licensing textile firms in the developing world to use such famous brands as Levi Strauss, Blue Bell (Wrangler) and Lee in making blue jeans, some of which were sold back to the USA. Thus many TNCs in industrialized countries have found it profitable to assist the textile industries of the developing world.

2. Tanzania

37. Cotton is Tanzania's second most important export item after coffee. About half a million persons are directly involved in its cultivation and cotton manufacturing is the country's leading industry. Up to 70 per cent of the cooking oil used in the country is extracted from cottonseed; its cake is an important animal feed. Tanzania, however, only conributes 0.9 per cent to the world cotton production, and as such is essentially a price-taker, not a price-setter.

38. TNCs are not involved in any direct way in the cultivation or early processing of cotton in Tanzania. The former is performed by peasants who individually allocate from 1.2 to 1.8 hectares to the fibre. The crop is sold to the Tanzania Cotton Authority (TCA), a para-statal body that markets it to local manufacturers or exports it to foreign buyers. The role of TNCs is confined to supplying machinery, spareparts and chemicals and to purchasing cotton for exportation.

39. As was the case in Sudan, the British Cotton Growers Association (BCGA) gave large-scale cotton cultivation its first impetus in Tanzania: the British textile industry found there, and in other colonies, an alternative to US cotton supplies. Cotton cultivation began in earnest in Tanzania in 1913: at the beginning, Tanzanian growers relied heavily on BCGA for such services as extension, seed selection and various inputs. The creation of the Research Organization under the Cotton Growing Corporation in 1920 heralded a shift to local sources of services, which is now virtually complete.

40. During the colonial period in the 1920s and the 1930s, peasants sold cotton to the Uganda Lint and Seed Marketing Board through Asiatic middlemen. These intermediaries were replaced during the 1940s by farmers' co-operatives. In 1957 Tanzania set up its own counterpart for the Uganda Lint and Seed Marketing Board, which was replaced in 1973 by the Tanzanian Cotton Authority (TCA). In 1976 the farmers' co-operatives were abolished and the TCA replaced them both as a selling agent for and a distributor of subsidies and loans, in cash or kind, to the farmers. Farmers are given a bonus incentive for delivering their produce during the first month of the buying season, and about 30 per cent of the produce is actually delivered during this period. TCA also distributes seeds free of charge to the growers and supplies them with subsidized chemicals (fertilizers, insecticides, pesticides), as well as lorry transport and storage facilities. It channels multilateral aid such as IDA's to some 3 000 small farmers in Geita. Rising costs of operations have forced the TCA to rely hevily on overdrafts to finance its activities: in the 1979/80 season it borrowed 654 million shillings, which was equal to 160 per cent of its purchases during the period.

41. In spite of strenuous government efforts to promote its production, growers have been shying away from cotton and turning to foodcrops like maize and cassava. Farmers are finding foodcrops more profitable and less labour- and chemical-intensive. Cotton production dropped from a peak of 422 500 bales in 1970 to 297 150 in 1981.

42. The TCA buys cotton through the agency of the village authorities. At buying posts, the fibre is closely examined and weighed in the seed. It is then ginned at ginneries owned by the primary societies and the lint is classified into clean (designated AR) and imperfect and damaged (BR) cotton; the former constitutes some 90 per cent of the total. After reserving about 20 per cent of the cottonseed for planting, the balance is either sold to local oil mills or exported. The lint is sold to the local textile mills or to foreign cotton traders: auctions, tenders and private agreements are used in disposing of the crop. With government approval, TCA fixes buying prices, which, since 1968, are announced before the time of planting. The prices are the same for all regions but vary with quality: this subsidies high-cost producers at the expense of low-cost ones. Deviations from world market prices credited or debited to a Price Assistance Fund augmented by the proceeds earned from sales of cottonseed. Payment to farmers is made after deducting ginning, transport and insurance costs, TCA and cooperative levies and the expert tax.

43. Until the mid-1960s, Tanzania exported all its lint and processed none itself. Under the protection of the East African Industrial Lincensing Council, the only textile mill allowed to operate within the East African Community was the Mytil mill of Uganda. Following independence, textile manufacturing became prominent among the import-substituting industries favoured by the state. A number of mills were established during the early 1960s: they included the state-owned Freindship Textile Mill built with Chinese assistance, a locally-owned private mill and two

others owned by European TNCs. In the early 1970s, the state acquired between 30 and 56 per cent of the shares of all private mills and subjected them to stringent controls. The TNCs continue, however, to play a significant role in the Tanzanian textile industry as suppliers of finance, technology and marketing outlets. Currently, about 30 per cent of the crop is processed locally. The percentage would have been higher had not the mills consumed a considerable amount of MMFs and blended fabrics.

44. Tanzania's cotton exports are sold to a number of TNCs, some of which, like Ralli Bros. of UK rank among the top 15 firms that handle 85 to 90 per cent of world cotton. Some of the listed buyers were also customers of Sudan before nationalization of the trade in 1970. As in the case of the Sudan, experience with auctions in Tanzania revealed a great deal of collusion among the buying TNCs: both countries have now ceased to hold auctions. The large TNCs dealing in cotton are known to use horizontal and vertical integration, interlocking directorates and information-swapping in strengthening their grip on the world market. They protect themselves by dealing in many products and using hedging facilities in commodity exchanges. They have considerable influence on price formation in these institutions.

C. Hardwood in the Ivory Coast

45. The Ivory Coast accounts for 47 per cent of timber exports from sub-Saharan Africa. Hardwood is the country's third main export preceded by coffee and cocoa: in 1975 it accounted for 22 per cent of exports, 38 per cent of export duties and 13 per cent of customs receipts. The local value added accounted for as much as 70 per cent of the industry's turnover of 70 billion CFA francs in 1974. Forests cover an area of 332 000 square kilometers or 80 per cent of the surface of the country and contain numerous species, 40 of which are currently logged. The mainstay of the industry are some 30 high-grade species that are suitable for specific purposes such as furniture, veneering and moulding, construction, flooring and railway ties. High-grade and multi-purpose species include mahogany, bété, aboudikro, bossé, amazakoué and dibetou. The industry employs some 40 000 people.

46. British Sawyers were the first to take an interest in forestry in the Ivory Coast in 1880. Kong Company, a leading European firm of the time followed in 1895. The two firms concentrated on exploitation of mahogany and red woods. By 1901 production had reached 13 000 tons a year and was causing the disappearance of these species in the south-east around the Port d'Assinie. The loggers began to venture further into the interior. By 1913, however, fears that the country's forestry resources would soon be exhausted led the colonial government to raise the matter in various timber conferences. The search for better exploitation of the resource began in earnest and was intensified following the First World War which created a new demand for the commodity. A number of missions completed studies and reports on new species that could be used in making furniture, railway sleepers and harbour

installations amongst others. This led to a more rational use of tropical woods, particularly of numerous species that had previously been unexploited.

47. The wood industry of the Ivory Coast has four branches: logging, the production of timber in the rough; primary processing, which involves the use of sawmills, veneering plants and similar devices so as to produce sawnwood, plywood, veneers and other semi-finished products; secondary processing, which produces finished wood products like furniture, constructional timber, panelling and moulding: this stage consists mainly of artisan workshops and a few factories; and the export trade, which mainly concerns timber in the rough. There are 710 firms in these four branches of the industry of which only 61, or 8 per cent, are TNCs. They account, however, for 67 per cent of the industry's raw and processed output, 72 per cent of its employees, 85 per cent of its annual turnover and 62 per cent of the value added.

48. Most of the TNCs operating in the timber industry of the Ivory Coast are subsidiaries of French, German and British companies like the CADEN, SEPC and JACOB groups. As such, their main purpose in the Ivory Coast was initially to secure supplies for their parent company mills in Europe. Following independence in 1960, the country began a policy of Ivorization of the industry and aimed at processing no less than 40 per cent of the timber output locally by the year 1975. In order to Ivorise the industry, the government decreed that only its nationals or companies in which the Ivory Coast had a majority shareholding and control over management could engage in logging. Consequently, 90 per cent of 710 loggers are national: foreign interest is dominant in only 61 firms. Yet as stated earlier these firms, in which TNCs are associated with some Ivory Coast nationals, still dominate the trade in rough and processed wood. In order to secure local processing rate was 39 per cent.

49. Regarding timber exportation, the government's policy was to establish direct contact with the final user of its wood and to promote unknown species. It tried to do this through bilateral trade agreements with importing countries, stipulating in the agreements that resale of its timber in the rough to third parties was prohibited. The intention was to bypass TNCs that acted as intermediaries between the Ivory Coast and countries in which they were not domiciled. The Ivory Coast is also seeking to promote the sale of new species like fromager (ceiba) which provide the same services as the traditional species. Thanks to the support of the EEC, processors and distributors, the campaign to popularize new species has succeeded to some extent.

50. TNCs have generally resisted these policies, and it is clear that they are still the dominant force in the export trade. They rely on their extensive networks in evading the government's no-third-party rule. Being in control of the world market for timber, they dictate the price, leaving the government in control of the domestic prices for rough wood and its by-products. Finally, TNCs have given little support to state efforts to popularize new species, since sales of traditional species involve no promotional expenses.

CHAPTER III

TRANSNATIONAL CORPORATIONS VS. HOST COUNTRIES

A. Changing bargaining positions

51. The survey presented in the previous section reveals a number of common trends among the five countries considered: the most significant is the marked improvement in bargaining power of host countries vis-a-vis TNCs following independence. The means used and the progress made towards this goal have varied from country to country. Nevertheless, efforts to curb the power of TNCs have generally succeeded with the exception of Zimbabwe, where the post-independence experience has been too limited to show substantial results as of yet.

52. TNCs had a fairly free hand in all five countries surveyed during colonial rule. The aim of the TNCs at the time was to preserve the colonies as sources of raw materials and/or markets for industrial products. Tanzania, Sudan, the Ivory Coast and Zimbabwe were to play the former role and, Kenya the second. Wherever possible, TNCs entrusted production of primary commodities to the local population, African, white or Asiatic as the case might have been. In the Sudan and Ivory Coast, however, they were forced to participate actively in cotton cultivation and timber logging, respectively. The export trade was also in the hands of TNCs, though not necessarily the same ones as was clearly the case with cotton. The TNCs involved in logging in the Ivory Coast were mainly subsidiaries of wood processing TNCs in the industrialized countries. Likewise, the tobacco-exporting TNCs in both Kenya and Zimbabwe were essentially affiliates of the cigarette manufacturers. This vertical integration of two or more phases of the industry gives TNCs an obvious bargaining advantage. Often, TNCs wielded so much power inside the colonizing country, let alone within the colony itself, that the colonial administrations were quite helpless before them.

53. When the colonies became independent, TNCs were stripped of the political backing they had been accorded by colonial powers and administrations. The newly independent states were determined to assert their authority in the economic sphere so as to achieve economic independence as well as political autonomy. Many of them were prepared to try nationalization, confiscation and other forms of active state intervention so as to curb foreign economic influence. There was widespread interest in industrialization in developing countries, which the TNCs seemed to resist for fear of losing the markets for their manufactures in these countries. The newly-independent nations were hoping to utilize their position as suppliers of raw materials and their cheap and abundant labour in establishing import-substituting industries that would later turn into exporting enterprises. TNC co-operation was needed, since they possessed capital, technology and managerial experience. The clash of interest between the two groups was resolved by limiting industries in the developing countries to production for the home market.

54. In all five countries surveyed here the goal of self-sufficiency in manufactures produced through local processing of part of their own produce has either been achieved or brought within sight. In most cases it was attained with the help of TNCs that had previously processed the same produce in their mills in the industrialized countries. Thus the cigarette factories were set up in Kenya in the 1950s and in Zimbabwe in the 1960s. Cotton textile mills were established by TNCs in the Sudan and Tanzania during the 1960s. About the same time, TNCs were induced to establish timber processing plants in the Ivory Coast. The TNCs that undertook these projects benefitted considerably from very generous concessions extended to them by host governments in the form of taxholidays, subsidies, soft credit and a protected market.

55. In time, host governments came to realize that TNCs were making large profits without contributing much to the economy in value added, employment, foreign exchange, tax revenue, capital or technology. Frustrated governments began to take severe measures against processing TNCs during the 1970s: socialist administrations in Tanzania and Sudan nationalized in full or in part such TNCs. The anti-western regime of Idi Amin in Uganda confiscated factories. The liberal Ivory Coast introduced its Ivorization programme. TNCs like BAT decided to accept the new reality and voluntarily surrendered a majority of their equity to host countries: BAT did this in Kenya, Nigeria, Ghana, Liberia and Zimbabwe.

56. The socialization and Africanization drive was not confined to the foreign firms engaged in the processing of African produce. It also covered the export section. The Ivory Coast required all TNCs engaged in exporting its timber to give nationals a majority shareholding and control over management. The Sudan, which chose to set up its own textile mills instead of participating in the ownership and management of industrial TNCs, nationalized all TNCs engaged in the cotton export trade in 1970. But Tanzania, Kenya and Zimbabwe made no similar effort to involve the state or their nationals in the export trade, although the bulk of their primary commodities is exported unprocessed. TNCs continued to export the produce of these countries without any significant participation by governments or nationals.

57. The involvement of the state or Africans in the management of the TNCs might have helped the host countries to obtain inside information and influence company policies from within. But soon, most host countries realized that they had gained very little. TNCs continued to be run from their headquarters abroad. State agencies that replaced exporting TNCs were forced to deal with foreign offices of these TNCs and not with the users of their primary commodities, as both the Sudan and the Ivory Coast soon discovered; nor did a majority of Africans on the Board of Directors of a locally-registered branch of a TNC mean very much as Kenyans found out. Five of BAT Kenya's nine Directors are Kenyans, including the chairman; but one member representing the government is non-executive, and the representative of the Kenyan shareholders, also a non-executive member, is nominated by BAT. The chairman is an ex-BAT employee. The managing director is British.

58. Towards the end of the 1970s, TNCs seemed to have gained new strength: the wave of nationalizations and confiscations of the early 1970s appeared to have subsided. Host countries were in most cases disappointed with the performance of their own state sector or with the results of shareholding in TNCs. In addition, enthusiasm for import-substituting industries was also declining, and increasing emphasis was being placed on the production of food for local consumption or raw materials for exportation. The deterioration of the balance of payment position of developing countries and their debt problems rendered them helpless when faced with demands of agencies such as the IMF and the IBRD, which urged liberal policies towards foreign capital and restricted state intervention. In the meantime, calls by the Third World to subject TNCs to some concerted control by the world community went unheeded by the industrialized nations. Under these conditions, Third World countries and their organizations for economic co-operation such as ECA, ECLA and ESCAP began to search for means of protection against exploitation by TNCs through joint or unilateral measures: this, and similar studies are undertaken with the aim of indicating what measures developing countries can implement to alter their relative bargaining positions with TNCs, and to redirect gains in their own favour. At present, many domestic and external factors are favouring the latter, as will be explained in subsequent pages.

59. The experience of the five countries under scrutiny as producers of tobacco, cotton and wood shows that despite improvements bargaining position and share of the gains vis-a-vis TNCs, the balance is still heavily tipped in favour of the latter. Reasons for this are many, but most important is the fact that dependence of host countries on markets controlled by TNCs as outlets for their major exports is much greater than the dependence of TNCs on these countries as sources of supply for raw materials or markets for their products. This is evident from the fact that while tobacco, cotton and hardwood constitute between 22 and 55 per cent of the exports of the five countries studied here, none of the countries supplied over half of developing Africa's exports of the three commodities; further more, the continent's share of world exports of each of these commodities was only about 10 per cent.

60. The power wielded by TNCs in world markets is the result of intensive links established following decades of mergers, take-overs, collusion and other restrictive practices which governments of the industrialized countries exempted from their anti-trust laws on the grounds that they were in furtherance of their external trade gains. In fact, these governments did everything they could to protect their TNCs against foreign competition, particularly from the LDCs (the MFA is a good example), while insisting that the latter dismantle trade barriers against their own TNC exports. Those TNCs that tried to utilize the comparative advantage which some developing countries had in processing their own primary products were aiming primarily at capturing the local market as well as those in other developing countries. TNCs which sought to export products to the industrialized world merely shipped semi-finished goods for finishing by TNCs operating there: the yarn exported from Sudan and the semi-processed timber sold abroad by the Ivory Coast are cases in point.

61. The effective support which governments of industrialized countries and multilateral agencies lend to TNCs contrasts sharply with the ineffective control which host countries exercise on TNCs operating within their boundaries. Contracts between TNCs and their local counterparts are usually negotiated between the two without government participation. There are no standard contracts worked out by governments; all that does exist are investment laws with general references to the need for training and employing nationals and observing laws governing industrial relations, public health, tax returns, etc. Most host countries do not possess special organs to deal with TNCs, nor do they have the necessary personnel and supporting information that could make such organs effective.

62. Other factors which are thought to have much influence in determining the relative bargaining positions of host countries and TNCs do not seem to be of much significance in the case of the countries studied here. It is said, for instance, that TNCs provide host countries with scarce and much-needed capital, technology and managerial inputs. There is strong evidence, however, that TNCs rely heavily on borrowed funds in meeting financial obligations; they often obtain machinery on suppliers' credit, raw materials on credit from producers and working capital from commercial banks. Thus, the capital actually contributed by TNCs is usually quite insignificant. The technology required in the processing industries now being established in developing countries of Africa can hardly be considered sophisticated or unmanageable by local expertise, nor is the management of tobacco mills, textile factories and timber plants beyond the ability of Africans.

63. The same can be said of the argument that host countries can use the 'hostage assets' of TNCs as a means of exerting pressure at the bargaining table. Seldom do the assets of a TNC in one developing country constitute a large proportion of its total wealth. Furthermore, the funds raised by TNCs inside the host country and the debts incurred there are usually substantial that the countries often find they lose more than they gain by confiscating the assets of a foreign firm.

64. For these reasons, the five producers of the three non-food primary commodities studied here are in a relatively weak position when bargaining for benefits with TNCs operating inside their territory. This is reflected in the inequitable distribution of gains between the countries and the TNCs, which are clear winners in the current struggle. The following section substantiates this argument.

B. Distribution of gains

65. Attempts to determine the distribution of gains between host countries and TNCs are usually problematic. First, it is difficult to make a full list of all direct and indirect gains accruing to the two sides. Secondly, it is even more difficult to assign objective values to these gains. Finally, the task of deciding what constitutes a "fair" distribution of gains between the two parties is vertually impossible. Despite these conceptual and practical problems, there are obvious advantages in giving an estimate, however rough, of the current division of economic benefits between host countries and transnational corporations.

1. Tobacco

66. The attempt to quantify distribution of benefits in the case of tobacco considered such gains to the host country as farmer and worker revenues, foreign exchange earnings, government tax receipts as well as dividends paid to the state and individuals holding shares in the TNCs. On the side of the TNCs, it considered net profits, the concessions and the subsidies they receive and the benefits that accrue to their parent companies and metropolitan governments.

67. A breakdown of the dollar spent by a USA consumer on cigarettes shows that the government earns US$0.41; the manufacturing and trading TNCs receive about US$0.53, of which wholesalers and retailers get US$0.23 and manufacturing employees US$0.03; the share of growers is only US$0.05. In Zimbabwe, the distribution of proceeds from marketing tobacco and its products as shown in Chart I, was as follows: The share of the commercial farmers in 1981/82 was between 30 and 40 per cent; that of the TNCs was 40 to 50 per cent; and that of the government, 20 per cent. The farmer's share which gave him an average income of about $20 000 did not include his income as farm manager; this amounted to some $6 000 a year. Wages of the African labour on farms were only about 80 per cent of that of employers, even after the new government had introduced a minimum wage of $50 a month. The state itself received very little in direct revenue from the farmers: agricultural taxes represented about 5 per cent of the export value of tobacco. Farmers received numerous tax exemptions, including a 100 per cent depreciation exemption from income tax. The Smith regime, it will be remembered, gave $165 million in subsidies to the farmers.

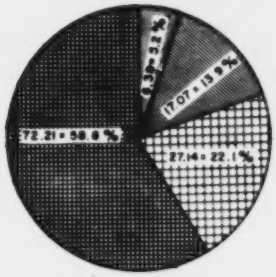
68. In contrast with the farming community, the trading and manufacturing sector, in which the TNCs are prominent, pay more in taxes - 7 to 17 per cent of the export value of tobacco in the case of exporting TNCs, and 34 to 43 per cent pre-tax profits in the case of manufacturing TNCs. Nevertheless, there is evidence that TNCs are not paying enough. The new tax law imposes a minimum of 51.7 per cent of profits to be paid in tax, yet the maximum TNC payment only amounted to 43 per cent of profits. It was also noticed that TNCs continuously inflate deductable costs: increases in management remunerations and advising fees alone jumped by 74 per cent between 1980 and 1981, reducing taxable income by about 5 per cent. Besides, local affiliates normally price exports in a way that enables their parent companies to reap large profits outside the producing country. For instance, BAT's parent company usually receives tobacco from Zimbabwe at about 75 per cent of the world market price. It is not surprising, then, that although Africa accounted for only 4 per cent of BAT's world turnover of $5 637 million, it contributed 8 per cent of its operating profits of $430 million (1980 figures).

69. Unlike Zimbabwe, tobacco growing in Kenya is strictly for local processing into cigarettes for the home market. This makes the distribution of gains somewhat easier to determine. Kenya's gains are in the form of income to tobacco growers, to

Chart 1 / Graphique 1

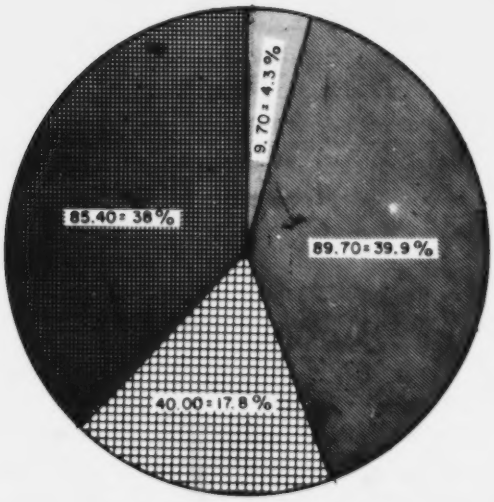
DISTRIBUTION OF GAINS IN THE TOBACCO INDUSTRY WITHIN ZIMBABWE SINCE INDEPENDENCE (1980)

REPARTITION DES GAINS DANS L' INDUSTRIE DU TABAC AU ZIMBABWE DEPUIS L' INDEPENDANCE (1980)



1980 - TOTAL EXPORT VALUE = $US 122.8 Million = 100 %

1980 - VALEUR TOTALE DES EXPORTATIONS = $EU 122.8 Millions = 100 %



1981 - TOTAL EXPORT VALUE = $US 224.8 Million = 100 %

1981 - VALEUR TOTALE DES EXPORTATIONS = $EU 224.8 Millions = 100 %

- Commercial farmers income/Revenu des producteurs de tabac à l'échelle commerciale
- Farm workers income/Revenu des travailleurs des exploitations agricoles
- Trading and manufacturing income/Revenu des sociétés commerciales et manufacturières
- Government revenue/Recettes de l'Etat

085-81

employees in the tobacco factories to cigarette distributors, to Kenyan shareholders, and to the Kenyan government (in the form of dividends and tax revenue). The 8 800 farmers on BAT Kenya's books earned Shs. 40 million in 1981. The company's 1759 employees earned about Shs. 43 million in aggregate. Some 50 distributors, 250 stockists and 55 000 retailers earned a total of Shs. 120 million. In 1981 the government received Shs. 3.49 million in taxes from BAT. Dividends received by the state and Kenyan shareholders amounted to Shs. 8.24 million. Kenya also benefitted from various forms of voluntary spending by the TNC, such as contributions to reaforestation, energy conservation and sport promotion. As for BAT itself, gains were mainly in the form of profits. Pre-tax profits in 1981 were Shs. 6.75 million, out of which BAT's shareholders received Shs. 3.32 million. BAT kenya's accounts mysteriously omit any mention of turnover, therefore trading profit has to be related to total assets so as to compare the TNC's profitability rate with that of its parent company. The ratio of trading profit to total assets for BAT Kenya Ltd. is 19 per cent against a rate of 13 per cent for the parent company. The high profitability rate of BAT Kenya's trading operations gives credence to the view that there is room for greater taxation by the state.

70. BAT's earlier reluctance to make Kenya self-sufficient in cigarettes and in tobacco cost the country much in terms of lost employment, production and foreign exchange. BAT is now a beneficiary of the enterpreneurship of other industrialists whose factories it took over. Its current resistance to moves to turn Kenya into a tobacco exporter is also costing the country much: estimates indicate that tobacco exportation could earn the country some Shs. 50 million in foreign exchange and the farmers Shs. 60 million annually.

2. Hardwood

71. TNCs are predominant in all phases of the Ivory Coast's timber industry. This is reflected in their high share of the industry's primary and secondary production, labour force, turnover and value added - more than 60 per cent in all cases. TNCs also have been regularly supplying wood to local processing plants, the amounts allocated to local manufacturers constituting 40 per cent of their wood exports. They paid the bulk of all taxes on wood, which accounted for 13 per cent of total customs receipts. Besides, they made substantial contributions to socio-economic development in the logging areas.

72. In 1979, overseas TNC operations earned the Ivory Coast 6 833 million CFA francs, and cost 1 371 million CFA francs, this representing a net income of 5 537 million CFA francs for the country and, in the process a net profit of 73 million CFA francs for themselves (1979 figures). This level of profit may seem reasonable when related to the turnover of TNCs: however, investments made by these corporations and the technological input they provide are so small that their

earnings are in fact little more than agents' commissions, in which case they are excessive at the going rate of 7 per cent. In theory, nothing can prevent a more or less complete Ivorization of the industry within a short period of time. The main reason this has not happened until now is perhaps fear that the TNCs, which are affiliates of wood processing transnationals in the industrialized countries, may move to other countries and promote their timber at the expense of that of the Ivory Coast. Thus anticipated losses rather than realized gains may be delaying replacement of TNCs with national firms.

73. An assessment of the distribution of benefits and costs in the hardwood sector cannot overlook the ecological effects of logging. Historically, TNCs have shown little interest in forest preservation in the country. The state had to interfere even during the colonial period to control extensive and indiscriminate logging. Even today TNCs concentrate their trading activities on well-known species that are in danger of exhaustion and refuse to promote the exportation of new ones which are in abundance. The state is forced to bear the burden of re-afforestation programmes and promotion of exports of new species. The extensive tax relief privileges enjoyed by most of the TNCs as "priority enterprises" mean that they are making little financial contribution to government efforts in this respect.

3. Raw cotton

74. The present involvement of TNCs in the cotton industries of Tanzania and the Sudan is limited. In Tanzania, it is largely confined to the export trade; the role of TNCs at the processing stage diminished considerably after the state partially nationalized the private textile mills. TNCs are now prominent in the Sudanese textile industry, after being ousted from the export trade by the state in 1970.

75. The experience of both the Sudan and Tanzania with exporting TNCs has been mixed. TNCs hardly invested capital in either country and relied on locally borrowed funds and rented storage and transport facilities. They made purchases on instructions from textile firms abroad and thus, carrying stocks assisted neither the SGB or the Sudan or the TCA of Tanzania. They rigged the auctions in both countries and depressed the prices to the producers. They sometimes engaged in speculative buying while hedging in the world futures markets, thus exposing the producing countries to risks against which they are not insured. They engaged in extensive and prolonged arrangements for lowering the grades of bought cotton and smuggling of foreign currencies abroad. They hardly paid any taxes on their profits, which are in any case very difficult to ascertain. For these reasons, the distribution of gains from the export trade was heavily tipped in favour of the TNCs. While they have little positive to offer to producing countries, TNCs do have the ability to harm them by shifting clients away if they are evicted, as the Sudan found out in 1970.

76. Textile TNCs operating in Tanzania and the Sudan have made some positive contribution to the economies of these two countries. In Tanzania, the state Textile Corporation(TEXCO) holds 66 per cent of the share capital of the five existing textile firms: the companies have a total paid-up capital of T.Shs. 104 million, all of which (except T.Shs. .32 million, which is the capital of the state-initiated FRIENDSHIP Textile Mill) was originally provided by private investors, mostly TNCs. Partial nationalization of the mills in 1973 raised the state's contribution to the paid-up capital of the textile industry to T. Shs. 66.8 million. Total investment in the industry is about T. Shs. 290 million, the bulk of which was financed by long-term loans from China, French and Japanese banking consortia and machinery suppliers. The country no doubt benefitted from the value added by the mills it partially nationalized. Furthermore, it received from the TNCs that hold the remaining shares sizeable sums in income and excise taxes. Of course, it can be argued that since the Tanzanian textile mills are essentially producing for the home market, the TNCs are dispensable. It is equally arguable, however, that without the TNCs the country might not have been able to raise required credits from the French and Japanese banks and the machinery suppliers.

77. In the Sudan, textile TNCs operate side by side with Sudanese and state-owned textile firms. The Sudanese Textile Factory, the largest spinning and weaving mill in the country, is Kwaiti-owned. The only other mill entirely owned by foreigners is Jumeira Spinning Mill. Other TNCs involved in the Sudanese textile factories are either small shareholders in firms predominantly owned by Sudanese or managing or selling agents for these same firms. An analysis of the benefits and costs to the Sudan of the operations of the Sudanese Textile Factory (STF) and Jumeira Spinning Mill produces contrasting pictures. The STF is the largest, most integrated and most rapidly expanding textile mill in the country. It has 115 200 spindles and 3 996 looms and employs 8 500 persons. Its maximum capacity is 90 million yards of fabrics a year. The cumulative losses of the mill in the last five years, however, reached LS.27 million, and its debts to the state banks and the Sudan Cotton Corporation run into tens of million of Sudanese pounds. The STF claims to be a model employer, yet its pay of 40 cents an hour only exceeds that of Egyptian mills (36 cents) and falls far short of the pay of Korean, Brazilian, and Tunisian mills (45 - 85 cents an hour). In 1980 it had a labour turnover rate of 28.2 per cent. The firm made losses in spite of the fact that due to the protectionist policies, the Sudanese consumer was paying 229 m/ms a yard for its cloth, instead of 180 m/ms for a yard of an imported substitute. Besides, protecting the mill's products from foreign competition, the state has offered the firm many other privileges, including water and electricity at reduced rates, a total exemption from profit taxes and raw cotton at below market prices. The state even replaced the more remunerative ELS type of cotton with shorter and cheaper growths that were more suited for processing by the mill.

78. For its part, the STF management claims that its heavy losses are largely the result of sudden changes in government policy and the inefficiency of some public utilities. They speak of periodic lapses in protection for the industry which lead to inundation of the home market with cheap and sometimes subsidized foreign fabrics. They also point out that the government suddenly raised the prices of cotton from LS 50 to LS 81 a bale, electricity rates from 12/m/ms to 54 m/ms per KWE, the interest rates on short-term finance from 7 to 12 per cent and minimum wages from LS 15.5 to LS 28.5 a month. On top of all these increases, the Sudanese pound was severely devalued causing the prices of imported inputs to rise sharply. All this occurred within a period of three years. Worst of all, power cuts reduced working days from 300 to 170 a year.

79. When a firm is engaged in an import-substituting activity as is STF, the question of foreign exchange savings become crucial. Indeed, even when it is working at 30 per cent of capacity, STF is saving the country LS 5.4 million a year in foreign currency, or the value of displaced imports (C.I.F. Port Sudan). However, this sum is inflated by LS 2.9 million, the cost of capital replacement, spare parts, raw materials, profits (if any), and other expenses paid for in hard currencies. The remitted part represented 18 per cent of the ex-store value of the fabrics produced in 1980 (See Table 1). In 1971, the retained value was only 72 per cent of the total: the higher retained value in 1980 was due to higher costs for wages, cotton, interest rates and other locally-acquired inputs. Yet despite this STF operated at a loss in that year.

80. Jumeira, a Dubai-owned TNC, produces yarn for export: it turns 9 thousand bales worth LS 1.3 million into 1 500 tons of yarn valued at LS 7.5 million. All inputs other than the raw cotton and electricity used by Jumeira are imported: Platt-Sacalowel, a British firm supplied the machinery; Tootal supervised construction, trained operators and acted as production managers; Combaro, a Swiss firm, acts as marketing agent. The factory is highly automated: it employs only 400 persons. The cotton and its products are moved by a fleet of trucks owned by the firm, which is also self-sufficient in finance. For these reasons, the retained part of the value of exported yarn is only 40 per cent (compared with 82 per cent in the case of the STF for 1980). As much as 60 per cent of the yarn value is remitted abroad in the form of debt servicing, profit and fees and commissions to associate TNCs. The firm self-sufficiency of the company also means that its backward linkages are weak and have no significant impact on the economy (See Table 2).

81. The state has incurred considerable expenses in providing essential services to industries. Services include energy, transport, sites, manpower training, banking facilities, etc. In the case of the textile industry, the mills feed on cotton grown exclusively by the state. In return, the state earns from the mills tax payments, electricity and water rates, transport fees and bank interest rates.

Table 1. Estimates of retained value in the Sudanese textile industry (LS 000s)

Sudan Textile Factory

	1971	1980
Ex-Store Value of Fabrics	5 720	6 893
Retained Value:		
Raw Cotton	1 440	4 525
Wages	1 502	4 250
Interest on Working Capital	210	2 978
Power	447	1 442
Total	3 599 (73%)	13 195 (82%)
Remitted Value:		
Capital Depreciation	817	1 580
Spare Parts	245	592
Raw Materials	300	700
Total	1 362 (27%)	2 872 (18%)
Grand Total	4 961 (100)	16 067 (100)
Profit (+) or Loss (-)	+ 752	-2 174

Jumeira Textile Mill

Value of exported Yarn 7 500

Retained Part		Remitted Part	
Raw Cotton	1 287	Debt Servicing	1 656
Wages	240	Spare Parts	885
Electricity	1 437	Commissions & Fees	900
		Profits	1 095
Total	2 964	Total	4 536
As % of Yarn Value	40%	As % of Yarn Value	60%

Since it had no sharholding until very recently in any private mill, the state receives no dividends from the private textile sector. The Internal Rate of Return (IRR) on government investments serving the STF and Jumeira factories only yields 7.45 per cent. The rate would have been lower still had operational costs been included. Its level is expected to increase, however, once the tax exemptions currently enjoyed by TNCs expire (see Table 2).

82. On the whole, it appears that the textile TNCs operating in the Sudan have generally failed to make a very significant contribution to the GNP of the country, to state revenues, to its foreign exchange reserves or to the welfare of its labour force. Some TNCs like Jumeira are remitting large profits abroad and not reinvesting them in the country. Others like the STF is living on overdrafts from the state banks. Furthermore, these two particular corporations, by virtue of their Arab nationality, have more assurances than other TNCs operating in the Sudan of continued priviledges.

Table 2. The Internal rate of return on government investments in the textile industry in the Sudan

The STF and Jumeira

	STF	JUMEIRA	TOTAL
		(LS million)	
A. Government Investments			
Acala Production	70,1	7,0	77,1
Electricity Generation	17,5	4,6	22,1
Rail Transportation	2,3	-	2,3
Site Preparation	0,2	0,1	0,3
Banking Services	15,0	0,4	15,4
Total	105,1	12,1	117,2
B. Government Revenue			
Defense Tax	0,146	-	0,146
Railway Rates	0,606	0,240	0,846
Electricity Charges	4,664	1,232	5,896
Interest on Bank Credit	1,800	0,048	1,848
Total	7,216	1,520	8,736
Internal Rate of Return	6,87%	12,56%	7,45%

CHAPTER IV

MEASURES TO STRENGTHEN THE BARGAINING POWER OF HOST COUNTRIES

83. The survey of transnational corporations host country relations in the five African countries under study has shown that distribution of gains in the tobacco, raw cotton and hardwood industries is skewed in favour of the TNCs. The imbalance has resulted from three main factors: changes in the world economic situation which have been generally benefitted the TNCs; inability of the producing countries to unite in countering the monopolistic arrangements and practices of the TNCs; and failure of individual countries due to lack of information or bargaining skills to make the most out, of their existing bargaining positions. Thus, there seems to be considerable potential for individual and joint action by the producing countries to strengthen and/or exploit their current bargaining positions so that they may improve their share of gains resulting from TNC operation within their territories.

84. Considerable improvements can be achieved by a host country in its bargaining position vis-a-vis TNCs through application of fairly simple administrative measures. Very few countries have special regulations governing the activities of TNCs, and even fewer have specialised agencies to deal with the corporations. Countries which only have general investment laws that apply to equally TNCs and local firms: enforcement of these laws does not differentiate between TNCs and other firms. The countries are seldom party to the agreements made by TNCs and their local counterparts. Their contact with TNCs is largely confined to making arrangements for concessions granted by the investment laws. The enforcement of laws governing taxation, protection of the environment, industrial relations, etc. are left to the relevant government bodies.

85. There is thus a need in many countries for a specialized body to deal with TNCs. This body must be responsible for enforcing all the laws that have a bearing on TNC activities, whether they deal with matters of taxation, environment, health, manpower, or any other. In order to avoid duplication, representatives of other government organizations could be part of such a body, to oversee all these areas of jurisdiction. The specialized organ should be empowered to negotiate on behalf of would-be hosts of TNCs, to participate in negotiations between the TNC and a third party or simply to review the agreements between the TNC and its local counterpart before sanctioning them. The two parties could, for instance, be required to conform with some model agreement formulated by the specialized agency.

86. TNCs usually have knowledgeable and skillful negotiators with experience gained in many countries; the government agency that deals with them must therefore select its staff carefully and train them for their difficult task. Foreign consultants may be resorted to at first. Exchange of information with other host countries can be

be of much help. United Nations organs dealing with TNCs can assist by supplying information and conducting training sessions for the staff of national bodies. Some useful work has already been performed in this field by the UN Centre for Transnational Corporations.

87. TNCs often use loopholes in tax laws and variations in accounting systems to their own advantage. What may appear as normal, inter-firm dealings can in fact be intra-firm transactions, since the two parties may be subsidiaries of the same TNC or have a parent-affiliate relationship. Such dealings can be used by TNCs to conceal or reduce their profits in one country or another and to declare them in the country where taxes are lowest. This study has shown that a TNC like BAT can effectively evade paying the minimum profit tax of 51 per cent. BAT also avoids mentioning its turnover in Kenya despite the importance of this item in calculating its taxable profits. More stringent enforcement of tax laws is therefore an urgent need in many countries that host TNCs. Application of UN-sponsored standard accounting procedures can help host countries in this respect.

88. In trying to safeguard their interests, host countries resort to various forms of state intervention. These range from passing laws and regulations and requiring Africanization of certain posts, to partial or full nationalization or even confiscation. Of these methods, the last two are the most likely to invite retaliatory measures. Yet, as options for extreme cases, they can help to strengthen the bargaining positions of host countries. Some TNCs have voluntarily offered host governments a part of their equity in order to avoid full nationalization. If utilized properly, government participation in equity and management can influence TNCs from inside. To succeed in this governments must ensure that their representatives on TNC Boards have stronger loyalty to the country than to the firm. While this may be attainable in the case of partially-nationalized TNCs through frequent changes of state representatives, African employees of a TNC subjected to an Africanization process are likely to identify their interests with those of their employer. Still, Africanization has helped to train nationals of host countries in the management of TNC-like firms and has promoted a general understanding of how TNCs operate. On the whole, the experience of the five countries studied in this report suggests that host countries must seek some direct involvement by either their governments on their nationals in the administration of TNCs, and not restrict themselves to issuing laws and rules for regulating the work of these corporations.

89. TNCs do not always enjoy harmony of interests: in fact, their interests often clash, as shown in this study. This may occur when TNCs operate in different countries or different sections of an industry, or when they specialize in competing products or processes. The competition between BAT and Rothmans, between cotton exporting and processing TNCs and between textile mills using cotton and those using MMFs are examples of conflict of interests among TNCs. Host countries can exploit these conflicts to their own advantage, as did all five countries in promoting their import-substituting industries.

90. The scope for collective action by host countries to strengthen their bargaining power when dealing with TNCs is also wide. Exporting and processing TNCs usually have access to numerous sources of supply and rely on competition among primary producer countries to enhance their bargaining position. In addition, TNCs often have close ties and co-ordinate their operations when dealing with producing countries. This form of co-operation, however, is somewhat rare among the countries themselves: when it exists, it is seldom institutionalized, nor is it given the form of an agreement or a joint venture. Sometimes, countries of a particular region or the whole of the developing world cannot influence the world market, even if they act jointly, because their share of world supply is small. In the case of cotton, tobacco and wood, African countries could not expect to exert much pressure on buyers even if they did form a cartel: developing Africa's share of the world markets for these commodities is only about one-tenth in each case. However, if these countries joined with producers from other developing areas, they could influence the market: the developing world supplies about 55 per cent of world tobacco exports, about 45 per cent of world wood exports and 30 per cent of cotton.

91. Developing countries are now negotiating as a group with the industrialized world, the home of TNCs, through many venues. As an example, they form the Group of 77 which sought through UNCTAD to negotiate Commodity Agreements covering several products. The group of African, Caribbean and Pacific (ACP) countries associated with the EEC negotiate as a single body with the European Economic Community over the primary products which they export to the Common Market. There are also bodies like the International Cotton Producers Association (ICPA) formed in 1980 which has at present 23 of the world' largest cotton producing countries in its membership. On the African level, there is an organization of wood producing countries which seeks to formulate a common African policy on wood production and marketing. Through collective action such as is now being exercised through these channels of co-operation, primary producing countries can considerably improve their bargaining power *vis-a-vis* the TNCs.

92. TNCs which operate in many countries and wield tremendous economic power on world markets, are the product of the current international economic order. They are but one of the means by which industrialized countries assert dominance and take advantage of the weakness of poor countries. The world bodies, multilateral financial agencies and international conventions governing economic co-operation among nations also support domination of the world economy by the rich countries. For these reasons, developing countries are now working for the creation of a New International Economic Order based on equality among nations. In this new Order, there will be a secure place for TNCs, but only so long as they contribute to the economic development of host countries while making profit for themselves. Not only the developing countries but the international community as a whole will ensure that they act in this manner. Until this ideal situation becomes a reality, the Third World primary producing countries will have to rely on individual and joint actions for curbing the excesses of TNCs operating within their borders.

Table A1. B.A.T. (World) Group turnover profit and asset analyses

For the year ended 31 December

Geographical analyses

Turnover	1981 £ million	%	1980 £ million	%
UK	2 034	22	1 757	23
Europe	1 979	21	1 755	23
North America	2 542	27	1 871	24
Latin America	1 731	19	1 495	19
Asia	566	6	425	6
Africa	355	4	300	4
- Kenya	S.O N/A	S.O N/A		
Australasia	58	1	42	1
	9 265	100	7 645	100

Trading Profit	£ million	%	£ million	%
UK	46	7	18	4
Europe	77	12	78	17
North America	283	45	212	45
Latin America	131	21	79	17
Asia	59	9	44	9
Africa	35	6	35	8
-Kenya	7	20% of Africa		
Australasia	3		2	
	634	100	467	100

Total Assets	£ million	%	£ million	%
UK	862	21	833	24
Europe	706	17	612	18
North America	1 626	39	1 161	34
Latin America	486	12	429	13
Asia	228	5	177	5
Africa	198	5	165	5
- Kenya	35	20% of Africa		
Australasia	27	1	22	1
Operating Assets	4 133	100	3 399	100
Finance	458		345	
Associated Companies	397		314	
	4 988		4 058	

Sources: BAT Industries 1981 Annual Reports and Account

Table A2. BAT: Geographical analysis of turnover and operating profit structure, 1976

	Turnover		Operating profits	
	£ Million	$	£ Million	$
United State & Canada	1 778	31	171	40
Europe	1 365	24	68	16
Latin America	1 258	22	87	20
United Kingdom	656	12	45	10
Asia	326	6	33	8
Africa	220	4	20	5
Australia	34	1	6	1
	5 637	100	430	100

Source: BAT Report and Accounts, 1976.

Table A3. BAT: Industrial analysis of turnover and operating profit structure, 1976

	Turnover		Operating profits	
	$ Million	$	$ Million	$
Tobacco	3 752	66	324	75
Retail	1 282	23	33	8
Paper	457	8	34	8
Cosmetics	91	2	5	1
Other activities	55	1	34	8
	5 637	100	430	100

UNCTAD, Marketing and Distribution of Tobacco, TB/BC.1 205(UN, 1987), p. 71

Source: BAT Report and Accounts, 1978.

Table 44. BAT (Kenya) - Group five years summary

	12 months to 31 December			15 months to 31 December		12 months to 30 September
	1981	1980	1979	1979	1978	1977
Profits	6 747	5 356	5 417	6 704	4 735	3 369
Profit before taxation	3 248	2 675	2 916	3 598	2 641	1 808
Profit after taxation						
Profit attributable to shareholders of B.A.T. Kenya Limited before extraordinary items	3 317	2 791	2 900	3 584	2 617	1 815
Dividends declared	2 063	1 819	1 741	2 156	1 500	1 256
Dividends per share (KShs.)	2 75	2 43	2 32	2 87	2 00	1 67
Earnings per share (KShs.	4 42	3 72	3 87	4 78	3 49	2 42
Balance Sheet						
Interest of Ordinary shareholders	20 758	19 562	10 428	10 696	9 356	6 256
Interest of minority shareholders	814	883	280	279	259	211
Shareholders' funds	21 572	20 445	10 708	10 975	9 615	6 467
Funds Employed	21 572	20 445	10 708	10 975	9 615	6 467
Fixed assets	17 274	17 169	8 036	8 036	6 943	4 403
Goodwill and trade marks	941	941	948	948	949	954
Stocks	8 721	8 579	9 603	9 603	9 951	5 805
Other current assets - net	(5 364)	(6 244)	(7 879)	(7 612)	(8 228)	(4 695)
Net Assets	21 572	20 445	10 708	10 975	9 615	6 467
Other Information						
Shares in issue ('000)	15 000	15 000	7 500	7 500	7 500	7 500
Number of shareholders	4 499	4 451	4 473	4 473	4 518	4 551
Number of employees	1 759	1 730	1 666	1 666	1 475	1 348
Contribution to Government : revenue	33 541	29 400	24 355	32 000	20 684	16 178

Source: B.A.T. Kenya Ltd. Report and Accounts 1981

Table A5. BAT Kenya Ltd. - Balance sheet as at 31 December 1981

	GROUP		COMPANY	
	1981	1980	1981	1980
	K£	K£	K£	K£
Fixed Assets	17 274 290	17 169 484	14 805 022	14 610 962
Goodwill and Trade Marks	940 647	940 647	834 941	834 941
Investments - at Cost				
Subsidiary Companies	-	-	300 004	300 004
Current Assets				
Stocks	8 721 232	8 578 904	8 357 251	8 263 528
Debtors	1 548 324	1 070 360	1 312 928	922 297
Cash	6 341 699	3 544 135	6 324 142	3 534 985
	16 611 255	13 193 399	15 994 321	12 722 510
Total Assets	34 826 192	31 303 530	31 934 288	28 468 417
Current Liabilities				
Creditors	5 283 580	3 963 273	5 043 365	3 583 983
Group Companies	205 880	452 070	974 209	1 348 153
Bank Loans and overdrafts	1 592 195	1 366 585	1 000 000	1 000 000
Taxation	4 114 079	3 047 464	3 507 983	2 456 092
Dividends	2 058 551	2 028 910	2 058 551	2 028 910
	13 254 285	10 858 302	12 584 108	10 417 138
Net Assets	21 571 907	20 445 228	19 350 180	18 051 279
Share Capital	7 500 000	7 500 000	7 500 000	7 500 000
Capital Reserve	8 962 127	9 021 370	7 991 140	8 050 383
General Reserve	831 048	831 048	722 850	722 850
Retained Profit	3 464 871	2 210 060	3 136 190	1 778 046
Shareholders' Funds	20 758 046	19 562 478	19 350 180	18 051 279
Minority Interests	813 861	882 750	-	-
Funds Employed	21 571 907	20 445 228	19 350 180	18 051 279

Source: BAT (KENYA) Ltd. 1981 Annual Report

Table A6. BAT Kenya Ltd. - Profit and loss account for the year ended 31 December 1981

	1981 KL	1980 KL
Profit before taxation	6 745 955	5 356 199
Taxation	3 497 533	2 680 917
Profit after taxation	3 248 422	2 675 282
Loss attributable to outside shareholders in subsidiary	(68 889)	(115 939)
Profit attributable to shareholders of BAT Kenya Limited before extraordinary item	3 317 311	2 791 221
Extraordinary item	101 375	-
Profit Available for Appropriation	3 418 686	2 791 221
Appropriated as follows:		
Dividends of BAT Kenya Limited		
First interim of K.Shs. 0,65 per share	487 500	468 750
Second interim of K.Shs. 0,80 per share	600 000	525 000
Proposed final of K.Shs. 1,30 per share	975 000	825 000
	2 062 500	1 818 750
Transfer of Capital Reserve	101 375	-
Retained profit for the year	1 254 811	972 411
STATEMENT OF RETAINED PROFIT		
At 1 January	2 210 060	1 987 589
Amount capitalized	-	3 750 000
	2 210 060	1 237 589
Retained profit for the year (Company	1 358 144	1 146 380
Subsidiaries	(103 333)	(173 009)
	1 254 811	972 471
At 31 December	3 461 871	2 210 060
Earnings per share (K.Shs.)	4,42	3,72

Source: BAT (Kenya) Ltd. 1981 Annual Report

Table A7. BAT Kenya Ltd. Group Source and application of funds for the year ended 31 December 1981

	1981 KL	1980 KL
Source of Funds		
Profit before tax loss minority interests	6 814 844	5 472 138
Adjustments for items not involving the movement of funds:		
Minority interests in the retained profits of the year	(68 889)	(115 939)
Depreciation	1 209 909	778 970
Gains on disposal of assets	(154 332)	(29 610)
Goodwill written off		7 167
Total Generated from Operations	7 801 532	6 112 826
Funds from Other Sources		
Proceeds from the sale of Fixed Assets	323 562	52 262
	8 125 094	6 165 088
Application of Funds		
Purchase of fixed assets	(1 532 771)	(1 321 681)
Taxation paid	(2 441 335)	(2 741 411)
Dividends paid	(2 032 859)	(1 527 990)
	(6 006 965)	(5 591 082)
	2 118 129	574 006
Increase/Decrease in Working Capital		
Increase/decrease) in stocks	142 328	(1 024 130)
Increase/decrease) in debtors	477 964	(287 246)
Increase/decrease)in creditors excluding taxation and proposed dividends	(1 074 117)	116 219
Movement in liquid funds:		
Increase/ (decrease) in Cash balance	2 797 564	1 539 056
Increase/decrease)in bank loans and overdrafts	(225 610)	230 107
	2 118 129	574 006

Source: BAT Kenya Ltd., 1981 Annual Report.

Table A8. Kenya Excise revenue from tobacco, 1973-1980

	KL'000
1973	5 802
1974	6 776
1975	7 788
1976	8 580
1977	12 533
1978	17 175
1979	23 327
1980	25 251

Source: Kenya Statistical Abstract - 1981

Table A9 Subsidiaries of BAT in Africa

Country	Name of Company	Shares owned by BAT
Ghana	Pioneer Tobacco Co.	100%
Kenya	BAT Kenya Ltd.	60%
Malawi	BAT Malawi	61%
Nigeria	Nigerian Tobacco Co.	90%
Zimbabwe	BAT Central Africa Ltd.	49%
Zambia	BAT Zambia	81%
Zaire	BAT Zaire	100%
Libéria	Monrovia Tobacco Co.	51%
Sierra-Leone		86%
Mauritius	BAT Co. Incorporated in U.K.	100%
South Africa	Utico Holding Ltd.	63%

Source: BAT Industries 1981 Annual Report & Accounts.

Table A10. Tobacco transnationals output, profits and taxes in Zimbabwe, 1980 (in Z$'s)

	BAT Zimbabwe (1)	Rothmans	TA Holdings (2)
Turnover	15 227 922	16 768 433	7 364 000
Capital	6 605 817 (8)	7 637 1 3 (8)	8 267 000 (8)
Trading Profit	2 675 727 (3)	2 091 525 (3)	1 215 000
Managerial expenses	121 417 (7)	160 242	N/A
Taxation	1 176 723	712 220 (4)	515 000 (6)
Profits after tax	1 409 002	1 257 610 (9)	699 000 (6)

Notes: (1) The largest BAT's affiliates in Zimbabwe: for others see p. Carlton, now 100% BAT-owned reported an additional turnover of $ $6.3 million and $11.9 million in 1980 and '81 respectively. It paid $0.5 and 0.6 million in taxes and reported $9 and$1.2 million, respectively in these years.

(2) Tobacco business only supplies, services trading business only.

(3) Trading profits after depreciation: $228 $.982 for Rothman's, $119 658 for PAT.

(4) Includes $155 220 taxes paid by Rothman's associated companies

(5) Includes $100 081 retained by associated companies

(6) Estimated based on assumption that taxes on TA's tobacco business equalled the same proportions of profits as for all its business.

(7) BAT Zimbabwe also paid $11 129 as technical and advising fees to the holding company in 1980, which increased to $89 656 in 1981.

(8) Not strictly comparable.

Source: BAT Zimbabwe Ltd., Notes to the Financial Statements, Company Registry, Harare 31/12/81. Rothmans of Pall Mall (Zimbabwe) Annual Report, 1980 TA Holdings, Annual Report and Accounts, 1980.

Table A11. Average variable costs of production of five cured tobacco per hectare, 1979/80 to 1982/3 in Zimbabwe

Variable Costs (VC)	1979/1980 $/ha	1979/1980 %/of vc	1982/3(est.) $/ha	1982/3(est.) %of vc	% Increase 1979/80 to 1982/3(est.)
Fertilizer & transport	119	11.3	191	9.2	+28.1
Chemicals	125	12.0	159	7.7	+27.2
Fuels & Oils	87	8.3	76	3.7	-10.3
Burning Fuels (Coal & Wood	91	8.7	235	11.3	+-58.2
Seed	1	0.1	2	0.1	+100.0
Repairs & maintenance (tractor, etc.)	61	6.1	120	5.8	+92.1
Repairs and maintenance (buildings, etc.)	12	1.1	107	5.1	+998.1
Insurance (hail)	54	5.2	101	4.8	+87.0
Insurance (field to floor)	-		24	1.1	+
Packing materials	13	13.4	17	0.8	+30.7
Transport to sale	12	1.1	47	2.2	+219.6
Selling charges	72	6.9	109	5.2	+91.6
Levy (ZTA)	27	2.6	49	2.3	+81.9
Total VC excl. labour	707	68.1	1239	60.0	+75.2
Labour	330	31.8	824	40.0	149.6
	1037	100.0	2063	100.0	98.9

Source: Calculated from data provided by Kulsaga research station.

Table A12. Average overhead costs of production of Flue cured Tobacco for whole farm 1979/80 to 1982/83 (estimated) in Zimbabwe

Overhead Costs of Whole Farm(1)	1978/80 (00) $	% of 00	1982/83(est.) $	% of 00	% increase '79/80 to 1982/83 (est.)
Accountancy/Audit	570	1.3	762	1.6	+33.6
Electricity	1720	4.1	2124	4.5	+23.4
Licenses	60	-	150	0.3	+150.0
Asst. S/managers Salary	3615	8.6	10683	22.8	+358.0
Medical Aid	500	1.2	707	1.5	+41.4
Postage, phone, Stationery	550	0.8	567	1.2	+62.0
Insurances	1440	3.4	3079	6.6	+113.8
Rent	1200	2.8	-	-	-
Rates	350	0.8	572	1.2	+62.0
Travelling	300	0.7	900	1.9	+200.0
Bank charges	220	0.5	275	0.5	+25.0
Depreciation	18000	42.8	13 976	29.8	-22.3
Interest	8000	10.0	6 356	13.5	-20.5
General expenses	710	1.7	908	1.9	+27.8
General labour (unallocated)	1700	4.0	4 140	30.2	+143.5
Tractor/implement Repair (unallocated)	3300	7.8	1 691	3.6	-48.6
Total 00	12035	100.0	46 848	100.0	+11.4
00 less depreciation(2)	18000		18 976		
	2 035		32 872		+38.1
Total/00/tobacco (00 (1)	25 221		28 109		
00 less depreciation (2) tobacco	15 132		19 723		
Total 00 tobacco/ha(3)	630(3)		759(3)		+20.5
00 less dep. for tobacco/ha	378(3)		533(4)		+41.0

Notes: (1) Kutsaga Research Station reports it is difficult to separate tobacco overhead costs from those for the whole farm, but estimates tobacco requires 60% of total.

(2) Depreciation is difficult to calculate, and may be informed, so overhead costs are calculated without the latter being the minimum which be met annually.

(3) In 1979/80, average tobacco hectarage was estimated at 40, which fell to 37 in 1982/3.

Source: Calculated from data provided by Kutsaga Research Station.

Table A13. Gross and Net returns per tobacco to average commerce

	1979-80	1982-83
Average gross returns $/ha.	3166.80	3097.00
Average net returns $/ha after variable costs	2129.80	1033.00
After overhead costs including depreciation	1499.80	271.00
without depreciation	1751.80	500.00
Profit of average farmer(4) after variable costs	85,160	41,320
after overhead costs including depreciation	59,960	10,960
without depreciation	70,040	20,000

Note: (4) Assuming he cultivates 40 hectares

Source: Calculated from data provided by Kutsaga Research Station.

Table A1.4. Returns to different sectors of Zimbabwe from tobacco, 1978-81

	Value of crop sales through Marketing Brand to farmers (mill.)			Total wages paid to comm. farm workers		Value of tobacco exports (unmanuf. & manufactured	Gross income of traders & Manufacturers		Tax revenues to government by				
	Flue cured	Burley	Total	$ mil	(1) % of farmers income (1)	Total $ mil	$ mil.	% exports	Growers (3) $ mil.	%/inc. after wages	Traders & Manufacturers (4) $ mil.	% of gross income
1978	61.9	2.0	83.9	21.6	25%	102.4	18.5	18%				
1979	92.0	2.1	93.1	24.8	27%	85.4 (2)	(-65) (2)	(-7%) (2)				
1980	97.4	2.1	99.5	27.2	27%	122.8	23.3	18.9%	2.4	3.3%	5	21.4%
1981	127.5	3.1	103.6	40.0	30%	224.8	94.8	42.2%	2.7	3.0%	7	7.4%

Taxes: (1) To the extent that this includes salaried as well as wage earners, this figure is higher than the actual remuneration of wage workers alone.

(2) Presumably the difference was stockpiled, to be sold later

(3) Calculated as 21% (i.e. equal to the % of commercial farmers growing tobacco) of total income taxes paid by agricultural companies and "self employed" owners ("Companies" include forestry companies which makes the figure higher than it could be).

(4) 1980 taxes paid by BAT, Rothmans, and TA Holdings (on its tobacco business profits)-see Table III. (1978 = $631 000) totalled $3 million: Total income taxes on drinks and tobacco in 1980. $66 millions, this estimate is based on the assumption that these firms paid at least 3/5 of the taxes paid by the tobacco firms in this category. This figure excludes excise taxes ($12.5 million in 1981) paid by domestic tobacco consumer, since they do not come out of the tobacco companies incomes.

Source: Calculated from Central Statistics Office, Monthly Digest of Statistics, July 1982 Table 6.1, 10.5, 11.6.

Table A15. Basic cotton statistics - world Africa, Sudan and Tanzania
(000 M. Tons)

	1969/70-1971/72 Average							
	World	Africa	Sudan	Tanzania	World	Africa	Sudan	Tanzania
Production	12 085	1 327	245	71	13 722	1 123	150	51
%	100	11	18	5	100	8	13	5
Consumption	11 991	429	14	8	13 741	577	13	13
%	100	3	3	2	100	4	2	2
Exports	3 936	945	226	56	4 435	634	167	36
%	100	24	24	6	100	14	26	6
Stocks	4 668	526	177	19	4 841	539	136	18
%	100	11	34	4	100	11	25	3

Source: I.C.A.C.

N.B. Percentages refer to Africa's share of world and Sudan's of African aggregates.

Table A16. World mill consumption of fibres (000 M.T.)

Year	Cotton	%	Wool	%	Rayon	%	Synthetics	%	TOTAL
1970	12 053	56	1 500	7	3 436	16	4 700	22	21 689
1973	13 281	51	1 443	6	3 660	14	7 640	29	26 024
1976	13 418	50	1 388	6	3 210	12	8 601	32	26 717
1979	13 994	48	1 499	5	3 371	11	10 614	36	29 478

Source: I.C.A.C.

Table A17. Production of cotton yarn by area (000 Metric Tons)

	1972		1976		1979	
World	10 500	100	11 050	100	11 975	100
United States	1 592	15.1	1 270	11.4	1 116	9.5
EEC@	853	8.1	845	7.7	678	5.7
Japan	555	5.3	498	4.5	508	4.3
Developing countries*	1 986	18.9	2 315	21.0	2 516	21.3

@ Belgium, France, W.Germany, Italy, Netherlands, U.K.

* Taiwan, Hong Kong, India, Korea, Pakistan, Turkey, Egypt.

Source: I.C.A.C.

Table A18. Labour costs per Hour (1976/77, (US $)

Belgium	8.30	W.Germany	7.40	Holland	7.30
Switzerland	1.20	Denmark	6.70	Norway	6.30
Italy	5.10	Canada	4.90	USA	4.40
France	3.80	Britain	3.20	Ireland	2.80
Greece	2.60	Turkey	1.50	Portugal	1.40
Tunisia	0.80	Brazil	0.60	S. Korea	0.42
Sudan	0.40	Egypt	0.36	Pakistan	0.28

Source: Werner Consultants

Table A19. World production of textiles and clothing by areas
(Annual % change in volume)

	1963-1973	1973-1979	1977	1978	1979
		Textiles			
World	5	2	½	2	4
Industrial countries	4½	0	-1½	½	4
Developing countries	4½	3	0	3½	4½
Eastern trading area	6	4½	4	4	1½
		Clothing			
World	4	2	2½	1½	2
Industrial countries	2	1	1½	-½	1
Developing countries	5½	3½	-1	3	3½
Eastern trading area	77	5	4½	3½	3½

Source: G.A.T.T.

Table A20. Industrial countries - imports of textiles & clothing
(Annual % change in value)

	Textiles			Clothing		
	1973/6	1977	1979	1973/6	1977	1979
Total	8	9½	25	19	13½	24
Industrial countries	7½	10	23½	12½	16½	23
Developing countries	9	8	28	27½	10	21

Source: G.A.T.T.

Table A21. Largest textile mills

1979 Ranking	Name	Nationality	Sales (M.US $)	Assets	Employees (000)
1.	Cortaulds	British	3 225	2 572	128
2.	Asahi Chemicals	Japanese	2 762	2 988	21
3.	Burlington Ind.	American	2 676	1 954	67
4.	Haci Other Sabanca	Turkish	2 629	3 368	27
5.	Korebo	Japanese	2 268	2 181	18
6.	Levi Straus	American	2 103	1 291	45
7.	Interco	American	1 851	1 003	41
8.	J.P. Stevens	American	1 833	1 041	21
9.	Toyota	Japanese	1 798	1 504	18
10.	Kyosung	S. Korean	1 558	1 515	25
11.	Coats Paton	British	1 451	1 297	65
12.	Union Camp	American	1 380	1 440	16
13.	Delfus-Mieg	French	1 079	806	22
14.	Blue Bell	American	1 029	679	30
15.	W. Point-P	American	1 013	592	23
16.	Unitka	Japanese	904	1 204	9
17.	Mitsibushi Rayon	Japanese	901	995	3
18.	Sunkyang	S. Korean	852	749	16
19.	Sperry & Hutchn.	American	809	814	10
20.	Tootal	British	773	559	29
21.	Du Pont Chemicals	Canadian	751	491	6

Source: Fortune Magazine

Table 21b. Top producers of artificial fibres

	1980 Sales (B. US $)	% of Total Sales
Du Pont	4.5	33
Hoechst	2.1	13
Bayer	1.9	12
Montedison	1.1	12
Monsanto	1.1	16
ICI	0.7	6

Source: Partly Chemicals

Table A22. Sudan cotton statistics (000 Metric Tons)

	1973	1974	1975	1976	1977	1978	1979	1980
Production		236	220	108	159	198	139	114
Consumption	13	15	14	15	14	11	11	15
Exports	237	157	118	215	146	149	177	175
Stocks	132	195	282	158	157	195	145	68
Yarn Production	9.5	9.7	9.9	7.3	6.0	4.7	5.5	3.6
Cotton piece Goods:								
Production	12.0	12.0	13.0	11.0	14.0	14.0	15.0	17.0
Imports	13.0	14.0	15.0	16.0	15.0	17.0	17.0	20.0

Sources: I.C.A.C., Bank of Sudan, I.T.I.C.

N.B. Stocks as on August 1.

Table A23. Shares of Biggest exporters of Sudan's cotton (1959-1961)

	1959		1960		1961	
Total Exports (000 bales)	947	100%	550	100%	560	100%
Biggest Firm	154	16	86	15	125	22
Biggest Three	381	40	217	39	258	46
Biggest Five	550	58	315	57	346	62
Biggest Ten	809	85	437	86	465	83

Source: Sudan Cotton Review

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